

IAIS Update

Annual meeting 2009
Rio de Janeiro, Brazil



In October 2008, as the world was coming to grips with the unfolding financial conditions, the insurance sector along with domestic and global regulators huddled together in an effort to ascertain the numerous factors at issue and how best to move forward.

As was then, the International Association of Insurance Supervisors (IAIS) continues to play a large role in this arena.

One year later, at the organization's 16th annual conference, held in Rio de Janeiro, Brazil, the trend toward global insurance regulatory cooperation was evident, as regulators from around the world met to discuss lessons learned from the recent market events, the promotion of sound insurance markets, and what the future of solvency regulation and supervision might look like going forward.

In seeking to become the world's standard setting body when it comes to prudential insurance matters, IAIS Executive Committee Chairman Peter Braümüller made it clear at the meeting that the IAIS is well positioned.

Current initiatives include research into the design and practicality of a common assessment framework for group supervision, review of the IAIS Insurance Core Principles, potential macroprudential tools and surveillance, supervisory colleges, compensation principles, crisis management and cross-border supervisory resolution, treatment of nonregulated entities and the IAIS Multilateral Memorandum of Understanding (MMoU).

"The IAIS' broad membership base, representing insurance regulators and supervisors from 140 countries around the world, places it in a unique position to take a truly global view in the advancement of supervisory standards," said Mr. Braümüller, who also heads the Austrian Financial Market Authority.



Peter Braümüller
Austrian Financial Market
Authority director and IAIS
Executive Committee chair

Photo courtesy of the IAIS

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The emerging market of micro-insurance



Armando Vergillo dos Santos Jr.
Superintendent of Brazil's
Superintendence of Private
Insurance (SUSEP)

Photo courtesy of the IAIS

Two dollars per day. That's the average amount of money earned by a micro-insurance policyholder. Meant to cushion the blow of a funeral or other specific peril, global regulators contend that micro-insurance is an emerging demand that several key jurisdictions are readying for.

With Africa, Asia and Latin America carrying the greatest potential for micro-insurance market share, supervision of the nontraditional insurance, marked by low premiums and coverage limits, is not without its challenges. However, lessons learned in one jurisdiction are likely to aid others in creating appropriate regulation and supervisory tools to facilitate access by keeping operating costs to a minimum, said speakers at a session on the topic.

Brazil provides one example of setting up such a market. At one of the opening sessions, Armando Vergilio dos Santos Jr., Superintendent of Brazil's Superintendence of Private Insurance (SUSEP), noted that Brazil's entrance into the micro-insurance market has been gaining speed. Recent events include: the formation of the country's Micro-insurance Consultative Commission in April 2008; the creation of micro-insurance working groups and a research group within SUSEP; and the drawing up of legislation relating to micro-insurance operations, distribution channels, consumer protection, and products.

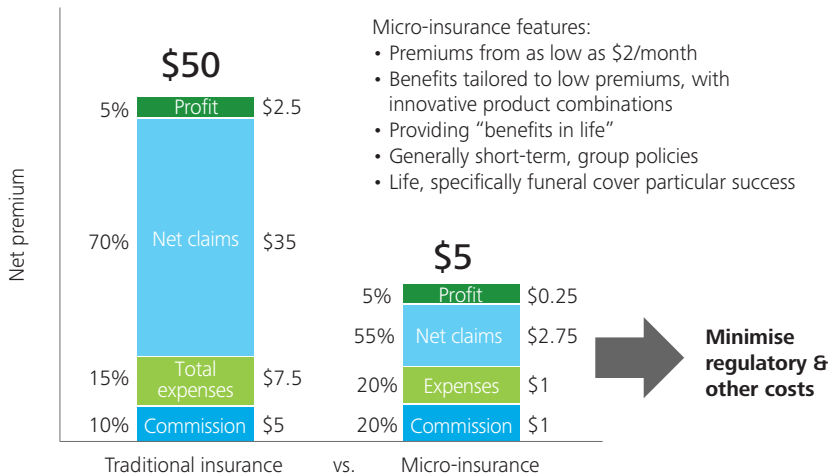
"It's a theme that motivates and guides us. It is the great frontier of the insurance market to be reached," the superintendent said. He added that while the market for micro-insurance in other countries, such as China and India may be urban, Brazil's is largely rural.

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— Armando Vergillo dos Santos Jr.

Speaker Hennie Bester, of the Centre for Financial Regulation and Inclusion, based in Cape Town, South Africa, said successful micro-insurance programs are marked by features which include premiums priced as low as \$2 per month and the provision of policy perks, or "benefits in life," such as pharmacy discount cards. In addition to individual policies, micro-insurance can be provided by trade unions and churches and as an add-on to one's utility bill. The key is to keep distribution costs low and regulatory burdens light in order for sales of the product to make financial sense for insurance companies. It is possible for a product to be "regulated out of the market," speakers said.

The micro-insurance bottom line



Source: From micro-insurance presentation of Hennie Bester, the Centre for Financial Regulation and Inclusion, Cape Town, South Africa

Lessons learned and the changing global regulatory landscape

What went wrong and what did we learn from it? This seemed to be a running thread through many of the sessions of this year's annual meeting. As for a session on lessons learned, panelists seemed to agree on one issue: That in finding a solution to systemic risk, the answer for the insurance industry should be separate from the answer that is arrived at for the banking sector.

Michaela Koller, director of the CEA, the European insurance and reinsurance federation, said the distinct differences between banks and insurers can be summed up in three areas:

- **Business model** – Banks are more credit focused
- **Risk diversification** – Insurers trend toward having higher collateral
- **Systemic relevance** – Less likely in insurance

Mr. Koller said that international challenges going forward include ensuring that regional and international initiatives on improving financial architecture can collectively monitor systemic risks worldwide. There must also be sufficient alignment between different approaches, while multiple layers of supervision should be avoided and the various characteristics of insurance well understood. It should also not be forgotten that other threats to stability include natural catastrophe and terrorism. He also said that the European Union's Solvency II approach to solvency should be adhered to, while taking care to avoid measures that do not appropriately recognize the difference between banks and insurers.

"We all agree the insurance industry was not at the center of the crisis but was certainly affected by it," added panelist Jan Brockmeijer, deputy director of the Monetary and Capital Markets Department of the International Monetary Fund.

While such practices as identifying systemically important institutions and addressing systemic risk up front through prudential standards may be ways in which future systemic risk might be avoided, Mr. Brockmeijer cautioned that turbulent financial times may continue for some time. "Don't get too excited about recovery," he said.



Attendees of the IAIS 2009 Annual Meeting in Brazil listen in on a panel discussion.

Photo courtesy of the IAIS

Action steps taken at the IAIS 2009 Annual Meeting in Rio de Janeiro

- The launch of the Access to Insurance Initiative, which is a new collaborative approach between international development agencies and insurance supervisors designed to strengthen the capacity and expertise of insurance supervisors and to facilitate their role in expanding access to insurance markets.
- The signing of three further insurance supervisory authorities to the IAIS Multilateral Memorandum of Understanding (MMoU). The MMoU facilitates cooperation and exchange of information between supervisors.
- The adoption of a guidance paper providing the key features for effective supervisory colleges in group-wide supervision.
- The extension of the Financial Stability Institute (FSI) on-line training tutorials to areas of specific interest to insurance supervisors, supported by the IAIS. Over the next few years, the FSI will introduce a number of additional insurance-focused tutorials.
- The adoption of a standard and guidance paper on the capital resources for solvency purposes to support the enhancement, improved transparency and comparability and convergence of insurer solvency internationally.

Source: IAIS Press Release, Oct. 26, 2009

Consumer protection takes top priority

Consumer education is not just an issue for simple products such as micro-insurance, but also extends to more complex products. And, as was learned during recent economic times, when the losses of certain product lines wind up harming consumers, regulators are impacted as well, said panelists of a session on financial literacy and consumer protection at the IAIS annual meeting.

Key among consumer protection tools, whether products are on the micro or macro levels, are disclosures, panelists said. And while the industry and regulators can work together to ensure proper disclosure mechanisms, the challenge becomes financial literacy. When policyholders fail to understand the language of the disclosures, the notices become all but worthless, regulators said, adding that the issue is especially troublesome in developing markets, where financial literacy standards are generally low, they said.

Panelist Julia Cillikova, director of the Regulation and Risk Management Methodology Department of the National Bank of Slovakia, said that in his country, there is a push to strike a balance and even the playing field for consumers. In addition to several pending, consumer-related laws, the country envisions the formation of two specialized institutions: The National Academy of Financial Education, which would work to educate market professionals; and the Financial Consumer Protection Authority, which would provide assistance to the consumer, offer out-of-court dispute resolution and would undertake supervision and enforcement of consumer rights.

“We’re shifting from a scattered, to a uniform legal framework,” he said.

Takashi Okuma, general manager of the General Insurance Association of Japan, said that the country’s highly competitive insurance market has led to an ever increasing number of products, causing confusion in the market both on the agent side and the consumer side. The goal currently in the industry is to get back to basics by reducing the number of additional and overlapping coverages, simplifying policy and disclosure language, and by improving the quality of agent/broker practices, including revamping the education system and incentive scheme.

As noted by World Bank Senior Insurance Specialist Rodolfo Wehrhahn, a good consumer protection scheme benefits not only consumers, but the market in the long run.

“Without trust, insurance cannot exist. As it is, the need for consumer protection arises from an imbalance in power, information, and resources between consumers and their financial services providers,” Mr. Wehrhahn said. On the plus side to the insurance industry, he added, consumer protection can provide an important source of market discipline to the financial sectors, encouraging financial institutions to compete by offering better products and services, Mr. Wehrhahn said.

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— World Bank Senior Insurance Specialist Rodolfo Wehrhahn

Corporate governance and risk management: What is at stake?

The future of financial regulation is likely to undergo significant, unprecedented change in the near future; therefore, all should be on their guard, in spite of the signs of recovery being seen in the marketplace. J. Hari Narayan, chairman of India's Insurance Regulatory and Development Authority of India, said during a panel discussion on corporate governance and risk management.

First steps might mean ensuring companies have the right people in the right roles. Chief risk officers, for example, should play central roles on company boards of directors. Enterprise-wide, companies should be filling senior management roles with highly qualified and proven leaders, panelists said. Regulators and companies must also strike a balance between what is extreme and what is reasonable in terms of proper risk management practices. In some respects, culture will play a great part in the decision-making process in this arena, speakers said.

Indeed, people matter more than structures, said panelist Maarten Hage of the De Nederlandsche Bank in the Netherlands and chairman of the IAIS Governance & Compliance Subcommittee. He said regulators should not only focus attention on the staff skills of a regulated entity but also on the compatibility between staff members. Regulators must also be mindful of remuneration policies to ensure they do not contain adverse incentives. He said that modern compensations schemes may have encouraged disproportionate risk taking with insufficient regard to longer-term risks.

In recognition of the IAIS Issues Paper on Corporate Governance, Panelist Shizuharu Kubono of the Life Insurance Association of Japan noted that his country has made great strides in recent years toward stronger supervision of corporate governance. In addition to laws passed in 2006 that mandate the development of systems that ensure proper risk management, internal controls and effectiveness of audits and compliance, the country now has strict guidelines for actuaries as well as for regulators.

World Life and Nonlife Insurance Premiums, 2006-2008 (1)

Direct premiums written, U.S. \$ million			
Year	Life	Nonlife (2)	Total
2006	\$2,125,791	\$1,549,100	\$3,674,892
2007	\$2,441,823	\$1,685,762	\$4,127,586
2008	\$2,480,421	\$1,779,316	\$4,269,737

(1) Before reinsurance transactions.

(2) Includes accident and health insurance.

Source: Swiss Re, *sigma* database

Top Ten Countries by Life and Nonlife Direct Premiums Written, 2008 (1) (US \$ millions)

Rank	Country	Life premiums	Nonlife premiums (2)	Total premiums		
				Amount	Percent change from prior year	Percent total world premiums
1	United States (3)	\$578,211	\$662,432	\$1,240,643	0.22%	26.09%
2	Japan (4)	\$367,112	\$106,085	\$473,197	20.37%	11.08%
3	United Kingdom	\$342,759	\$107,393	\$450,152	-16.56%	10.54%
4	France	\$181,146	\$91,861	\$273,007	0.06%	6.39%
5	Germany	\$111,278	\$131,807	\$243,085	8.75%	5.69%
6	PR China	\$95,831	\$44,987	\$140,818	52.26%	3.30%
7	Italy	\$82,623	\$58,066	\$140,689	-1.20%	3.30%
8	Netherlands (5)	\$38,899	\$73,712	\$112,611	9.74%	2.64%
9	Canada (6)	\$47,855	\$57,319	\$105,174	4.38%	2.46%
10	South Korea (4)	\$66,417	\$30,606	\$97,023	-15.97%	2.27%

(1) Before reinsurance transactions.

(2) Includes accident and health insurance.

(3) Nonlife premiums include state funds; life premiums include an estimate of group pension business.

(4) April 1, 2008-March 31, 2009.

(5) Nonlife premiums are gross premiums and include a small amount of reinsurance premiums.

(6) Life premiums are net premiums.

Source: Swiss Re, *sigma*, No. 3/2009

Cooperation among global supervisors, emerging answers

If the past 18 months has demonstrated anything to insurance policymakers and regulators around the globe, it is that a strengthening of bonds across regulatory and jurisdictional borders are needed to stem the tide of future contagion and systemic risk in the financial markets.

Several sessions at the IAIS annual meeting were devoted to these topics, including how insurance supervision has changed as a result of recent challenges, and what efforts are being made in the realm of cross-border regulatory cooperation.

Gaining greater importance for regulators is the importance of risk-based capital requirements, consolidated group solvency assessment, proper actuarial assessments of technical provisions, and stringent stress testing. In addition, several said they are finding answers in looking to Solvency II, the EU's insurance rulebook.

David Oakden of Canada's Office of the Superintendent of Financial Institutions said, in terms of capital modernization, his jurisdiction is looking to the internal models found in Solvency II and Basel II to keep in line with what is happening in the rest of the world. Matthew Elderfield, chief executive officer of the Bermuda Monetary Authority, added that Bermuda's solvency standards closely align to IAIS Core Principles and have achieved regulatory equivalence with Solvency II.

In terms of building common bonds between global regulatory authorities, a panel discussed the issue of the cost of recent failures by way of government bailouts and how, in the future, regulatory cooperation amongst international jurisdictions might better allow the closing of gaps in regulation and supervision – ensuring that no products or markets go unregulated. In addition, it was noted that the IAIS is working to support the G-20 Leaders Declaration of November 2008, which calls for supervisors to collaborate to establish supervisory colleges for all major cross-border financial institutions.

To this end, in addition to its MMoU program, the IAIS is in the midst of reviewing and revising all of its Insurance Core Principles to meet today's needs and adopted at the 2009 meeting a supervisory paper which provides guidance on the use of supervisory colleges in group-wide supervision.

While there was much discussion on taking these steps further by actually creating a global system of regulatory convergence, most agreed that the best that could be hoped for at the present is to achieve cooperation and perhaps regulatory equivalence among global insurance supervisory jurisdictions.

European financial supervisory architecture: Shortcomings revealed by the crisis

- Lack of adequate macro-prudential supervision
- Lack of early warning mechanisms
- No means for supervisors to make common decisions
- Lack of immediate cooperation between supervisors
- Inability to challenge supervisory practices on a cross-border basis
- Lack of consistency in supervisory rules, powers and sanctions across member states of the EU

This information was presented at the IAIS 2009 Annual Meeting by Karel Van Hulle, who heads the insurance and pensions division of the European Commission and is Directorate General of Internal Market and Services

Making the way forward

Panelists at a session entitled "Lessons from the crisis – for supervisors and the insurance industry" offered the following steps that might be taken to improve the quality and effectiveness of insurance regulation and supervision going forward:

- Move toward global convergence of standards, supervisory cooperation and a group-wide supervision framework
- Renew focus on investment management in the context of enterprise risk management and governance
- Increase focus on capital, investment and liquidity risk management
- Consider both macro and micro prudential perspectives in these areas

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